

**REPORT OF THE AUDIT OF THE
GREENUP COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
May 1, 2008 Through April 15, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GREENUP COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
May 1, 2008 Through April 15, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Greenup County Sheriff for the period May 1, 2008 through April 15, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$17,228,497 for the districts for 2008 taxes, retaining commissions of \$552,848 to operate the Sheriff's office. The Sheriff distributed taxes of \$16,640,310 to the districts for 2008 taxes. No taxes are due to the districts from the Sheriff and a refund of \$674 is due to the Sheriff from a taxing district.

Report Comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$10,095,631 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 4, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$10,095,631

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Robert Carpenter, Greenup County Judge/Executive

Honorable Keith M. Cooper, Greenup County Sheriff

Members of the Greenup County Fiscal Court

Independent Auditor's Report

We have audited the Greenup County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009. This tax settlement is the responsibility of the Greenup County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Greenup County Sheriff's taxes charged, credited, and paid for the period May 1, 2008 through April 15, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Robert Carpenter, Greenup County Judge/Executive

Honorable Keith Cooper, Greenup County Sheriff

Members of the Greenup County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$10,095,631 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

October 6, 2009

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period May 1, 2008 Through April 15, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,999,245	\$ 3,049,224	\$ 7,896,894	\$ 1,487,244
Tangible Personal Property	254,520	519,366	699,612	407,749
Fire Protection	2,990			
Increases Through Exonerations	1,366	1,936	4,929	1,437
Franchise Taxes	353,590	395,253	1,121,574	
Additional Billings	8,873	13,027	34,676	8,043
Oil and Gas Property Taxes	1,929	2,793	7,703	1,435
Penalties	14,355	22,004	56,516	11,225
Adjusted to Sheriff's Receipt	(4)	7,682	368	(2)
Gross Chargeable to Sheriff	<u>2,636,864</u>	<u>4,011,285</u>	<u>9,822,272</u>	<u>1,917,131</u>
<u>Credits</u>				
Exonerations	23,009	36,320	95,416	17,420
Discounts	32,632	52,520	122,785	27,699
Delinquents:				
Real Estate	97,596	147,723	385,015	72,490
Tangible Personal Property	<u>7,664</u>	<u>9,736</u>	<u>20,666</u>	<u>10,364</u>
Total Credits	<u>160,901</u>	<u>246,299</u>	<u>623,882</u>	<u>127,973</u>
Taxes Collected	2,475,963	3,764,986	9,198,390	1,789,158
Less: Commissions *	<u>105,516</u>	<u>160,012</u>	<u>210,993</u>	<u>76,327</u>
Taxes Due	2,370,447	3,604,974	8,987,397	1,712,831
Taxes Paid	2,365,616	3,596,782	8,969,708	1,708,204
Refunds (Current and Prior Year)	<u>4,831</u>	<u>8,192</u>	<u>17,689</u>	<u>5,301</u>
Refund Due Sheriff as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (674)</u>

* See Next Page

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES
For The Period May 1, 2008 Through April 15, 2009
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	8,020,107
2.5% on	\$	5,405,043
2% on	\$	3,793,347

The accompanying notes are an integral part of this financial statement.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Greenup County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the Sheriff did not have a written agreement with the bank.

GREENUP COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Greenup County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 15, 2009, all deposits were covered by FDIC insurance. However, as of November 4, 2008, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$10,095,631

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 1, 2008 through April 15, 2009.

Note 4. Interest Income

The Greenup County Sheriff earned \$1,910 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school districts as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Greenup County Sheriff collected \$86,825 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Greenup County Sheriff collected \$885 of advertising costs and \$885 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To Honorable Robert Carpenter Greenup County Judge/Executive
Honorable Keith M. Cooper, Greenup County Sheriff
Members of the Greenup County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Greenup County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009, and have issued our report thereon dated October 6, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Greenup County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Greenup County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Greenup County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Greenup County Sheriff's Settlement - 2008 Taxes for the period May 1, 2008 through April 15, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$10,095,631 And Enter Into A Written Agreement To Protect Deposits

The Greenup County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Greenup County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 6, 2009

COMMENTS AND RECOMMENDATIONS

GREENUP COUNTY
KEITH M. COOPER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2008 Through April 15, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$10,095,631 And Enter Into A Written Agreement To Protect Deposits

On November 4, 2008, \$10,095,631 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$250,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: Will never use People's Bank again.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we found the Sheriff's office lacks adequate segregation of duties. The Sheriff's bookkeeper collects taxes from taxpayers. The bookkeeper also prepares the daily deposit, deposits collections into the bank, posts tax bills into the computer program, prepares the monthly report, prepares checks for tax payments to the districts, and prepares the tax settlement. By not segregating these duties there is an increased risk of misappropriation of assets either by error or fraud. Good internal controls dictate the same employee should not handle, record and reconcile receipts. The following compensating controls can be implemented to offset these internal control weaknesses:

- The Sheriff should review the disbursements ledger and monthly reports to agree checks.
- The Sheriff should review the receipts ledger and agree it to daily checkout sheets and deposit slips.
- The Sheriff should review the bank statements and reconciliations and agree bank balances to the ledgers.

These reviews can be documented with the Sheriff's initials.

Sheriff's Response: Small department – limited resources.

